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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

DII5018 – INTRODUCTION TO INVESTMENT (For Diploma Students Only)

4 JUNE 2018
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE (9)** pages only excluding the cover page and formula appendix.
2. Answer **ALL** questions.
3. Answers for Section A and B should be shaded on the OMR sheet provided.
4. For Section C, write your answer in the answer booklet provided.

SECTION A : MULTIPLE CHOICE QUESTIONS 1-30 (each question carries 1 mark with a total of 30 marks). Answers for this section should be shaded in the OMR sheet.

1. The following show that assets are investment except _____.
 - A. vacant land inherited used for planting rubber trees
 - B. personal car used for 'Grab' business
 - C. residential property used for family residence
 - D. money deposited in the current savings account
2. Which of the followings is correctly related to the investment process?
 - I. Government issues bonds to collect fund for federal and state projects and operations.
 - II. Sime Darby Group of Companies is more likely a net demanders of funds in investments.
 - III. Financial institutions such as Maybank Berhad provides loans and borrowings to individuals is known as net suppliers of the fund in investment.
 - IV. Money market is mainly for short term meanwhile capital market is for long term investments.
 - A. I, II & III only.
 - B. II, III & IV only.
 - C. I, II & IV only.
 - D. I, II, III & IV.
3. _____ is an example of growth fund for short term investment.
 - A. Yearly fixed deposit
 - B. Derivatives
 - C. Money market mutual funds
 - D. Fixed income securities
4. Bursa Malaysia plays a role as a(n) _____ in Malaysia securities market.
 - A. broker market
 - B. dealer market
 - C. investment banker
 - D. lead investment banker
5. _____ is the riskiest among all types of securities transactions and profit gain when stock price is _____ and cause high speculation.
 - A. short selling; down
 - B. long purchase; up
 - C. margin trading; down
 - D. insider trading; up

Continued...

6. The followings are the conditions of bull market except _____.

- A. securities prices continuous to rise
- B. the country's Gross Domestic Productivity (GDP) rate increases
- C. government encourage publics to invest
- D. consumers tend to save money rather than spending

Answer Question 7, 8 and 9 based on the matters below.

Junita decides to invest on one of the three investment alternatives, either on crude oil, gold or to place some savings into fixed deposit. Below are the details of the previous year information for each investment collected by Junita on return and investment value:

Investments	Crude oil	Gold	Fixed deposit
	RM	RM	RM
Cash received:			
1 st quarter	10	0	15
2 nd quarter	30	25	15
3 rd quarter	25	10	15
4 th quarter	30	15	15
Investment value:			
Beginning of year	1,800	2,200	2,000
End of year	1,850	2,300	2,000

7. Based on the details above, the total return for crude oil is _____.

- A. RM95
- B. RM145
- C. RM150
- D. RM60

8. The holding period of return for gold is _____.

- A. 6.52%
- B. 6.82%
- C. 7.84%
- D. 8.06%

9. Which of the following does conclude the findings of Junita's return assessment?

- I. The total return in crude oil is highest compared to gold and fixed deposit.
- II. Fixed deposit only generates income and generates zero capital gain.
- III. The HPR rate for fixed deposit is the lowest compared to gold and crude oil.
- IV. Junita should invest on gold rather than crude oil.

- A. I, II & IV only.
- B. II, III & IV only.
- C. I, II & III only.
- D. I, II, III & IV.

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10. The followings about investment risk assessment is TRUE except _____.

- A. risk of an investment is shown in the particular investment's volatility movements
- B. higher standard deviation indicates lower risk
- C. government securities are risk free investment
- D. coefficient of variation is useful in comparing the risk of assets with differing average or expected returns

11. Given are the historical data of the actual return received for 3 consecutive years of Smart Mart Berhad:

Year	Rate of return (%)
2015	-2.0
2016	4.2
2017	6.8

Based on the data above, what is the standard deviation for the investment in Smart Mart Berhad?

- A. 4.52%.
- B. 5.52%.
- C. 6.52%.
- D. 7.52%.

12. Samy prefers to invest in risk free bonds such as government bonds rather than invest in high yield stocks. Samy is a _____.

- A. risk-averse
- B. risk-seeking
- C. risk-tolerant
- D. risk-indifferent

13. The followings are incorrect about the relationship between bonds and interest rates except _____.

- A. when interest rates rises, bond price tends to drop
- B. bond markets bearish when interest rates falls
- C. bond markets bullish when interest rates rises
- D. interest rates and bond prices move in similar direction.

14. Bonds are _____.

- A. also known as "fixed income securities" because the investor will receive fixed interest per annum until it reaches maturity
- B. where bond issuers will pay back the principal amount of bond to the investors when it reaches maturity date
- C. liabilities to the eye of the issuers
- D. all of the above

Continued...

15. If Bond A with principal at par value pays RM40 interest every semi-annually, the coupon rate for bond is _____ per annum.

- A. 2%
- B. 4%
- C. 8%
- D. 10%

16. _____ enables Garmin Berhad to repurchase its 20-years maturity callable bonds at minimum 10 years after its date of issue.

- A. Call price
- B. Deferred call
- C. Call premium
- D. Freely callable

17. Advantages in investing stocks are as follows except _____.

- A. good inflation hedge
- B. it is convenient to purchase and sell stocks
- C. stock price and market information are accessible at anytime
- D. opportunity for higher returns but lower than corporate bonds

18. Pei Ling is one of the shareholders of Mattel Dolls Berhad. In order to boost its stock trading, Mattel Dolls Berhad declares a 3-for-2 split of its existing shares. If Pei Ling holds 450 new shares after the announcement, how much unit is Pei Ling previous old shares?

- A. 100.
- B. 150.
- C. 225.
- D. 300.

19.

- Financially strong and high quality growth stock.
- Relatively low risk and stable in whatever economic condition.
- Stock of lead company in its industry.

Above are the descriptions of Stock X in Malaysia. Stock X is most probably is a _____.

- A. blue chip stock
- B. income stock
- C. treasury stock
- D. speculative stock

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20. The following information are needed to compute the forecast corporate earnings except _____.

- A. the length of forecast period
- B. estimated future dividend payout ratio
- C. estimated future price-to-earnings (P/E) ratio
- D. the numbers of shares outstanding over forecast period

21. Assuming Butterscotch stock is expected to pay annual dividend of RM1.75 per share at next year with constant dividend growth of 8% per annum. If the required rate of return of investment is 12% per annum, the value of Butterscotch stock per share invested is _____.

- A. RM1.89
- B. RM14.58
- C. RM21.88
- D. RM43.75

22. An efficient portfolio is _____.

- A. a portfolio that meet one or more investment goals
- B. a portfolio that achieves long-term price appreciation
- C. a portfolio that produce regular dividend and interest income
- D. a portfolio that provides the highest return for a given level of risk

23. Diversifiable risk can be derived from _____.

- A. war
- B. inflation
- C. political issues
- D. labour strikes

24. The followings are inaccurate about beta except _____.

- A. measure of diversifiable risk
- B. indicates how the price of a security responds to market forces
- C. Stocks with betas more than 1.0 are less risky than the overall market
- D. stocks with betas less than 1.0 are riskier than the overall market

25. Suppose risk free rate is 1.28 percent, market return is 10.0 percent and the required return is 15.98 percent, the value of beta is _____.

- A. 1.355
- B. 1.686
- C. 1.758
- D. 2.255

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26. The followings are true about modern portfolio theory except _____.

- I emphasis "balancing" the portfolio using a wide variety of stocks and bonds.
- II uses several basic statistical measures such as expected returns, standard deviation of returns and correlation between returns to develop a portfolio plan.
- III statistic diversification is used to choose securities to form a portfolio.
- IV diversification achieved by combining securities that have negative or low-positive correlations between each other's rate of return.

- A. I, II & III only
- B. I, II & IV only
- C. I, III & IV only
- D. II, III & IV only

27. According to efficient market hypothesis, there are three forms as stated below except _____.

- A. strong efficiency
- B. semi-strong efficiency
- C. weak efficiency
- D. semi-weak efficiency

28. The efficient market hypothesis states that it is impossible to "beat the market" because _____.

- A. stock market is always volatile
- B. stock market is highly affected by various external and internal factors
- C. in stock market, there is no such thing as good timing
- D. share prices are reflected based on relevant information available in the market

29. The followings show the drawbacks of mutual funds except _____.

- A. pay management fee
- B. pay commission fee on load funds
- C. too complex to track price performance
- D. mutual fund must invest in long term in order to achieve higher return

30. In mutual fund, _____ buys and sells stocks or bonds and otherwise oversees the portfolio.

- A. traders
- B. securities analysts
- C. investment advisor
- D. management company

Continued...

SECTION B : TRUE AND FALSE QUESTIONS (each question carries 1 mark).
Answers should be shaded on the OMR sheet provided. Shade A for True, and B for False answer.

31. Broker markets and dealer markets involve in secondary market transactions.
32. Retirees normally invest in low-risk growth stocks and government bonds.
33. Investment risk can reduce through diversification.
34. Internal Rate of Return (IRR) overcomes Holding Period Return (HPR)'s weakness by taking consideration of the effect of the time value of money.
35. If inflation rate decreases, the market price of bond will fall.
36. Public offering is a term used when a company offers to sell its newly issued stocks to its existing shareholders based on the proportion of their current ownership.
37. Portfolios that fall to the right of the efficient frontier are not desirable because their risk return tradeoffs are inferior.
38. If the portfolio beta is -2.0, 1 percent decrease in market return may cause 2 percent decrease in expected portfolio return.
39. Investors are advised to purchase diversified portfolio if the market efficiency is weak.
40. In all mutual funds, investors must acquire shares from other investors who owned the fund.

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SECTION C : STRUCTURED QUESTIONS (60 marks).
Please answer all questions in the answer booklet provided.

QUESTION 1

Hasni purchased 150,000 shares of Warner Colours Berhad at RM2.20 per share at the beginning of the year. Under the advice of her broker, Hasni used a partial of her own money to fulfill the initial margin requirement of 65%. The bank sets maintenance margin at 65%.

- a) Compute the amount of loan borrowed by Hasni. (2.5 Marks)
- b) How much equity must Hasni provide for the margin transaction? (2 Marks)
- c) If Warner Colours Berhad's share price increases to RM2.40 per share at the end of year, compute the new margin percentage. (2.5 Marks)
- d) Will there be margin call in (c) if at the end of the year the bank's required maintenance margin has increased to 70%? If yes, how much is the new debit balance in order to maintain the 75% margin? If no, why? (3 Marks)
- e) Assuming the maintenance margin remains at 65%, compute the return on invested capital if Hasni received a total dividend of RM500 and sells the share at RM2.40 per share at the end of the year. The loan interest is charged at 0.1% per annum. (3 Marks)
- f) Provide **TWO (2)** advantages of margin trading. (2 Marks)

(TOTAL 15 MARKS)

QUESTION 2

- a)
 - i. Gina plans to invest in Best Buy Bond that is expected to increase its value by RM500 in 3 years after the date of purchase. Assuming Best Buy Bond is purchased by Gina at RM1,000, compute the compound annual interest rate per annum earn by Gina. (3 Marks)
 - ii. Based on answer in (i), if Gina's required rate of return is 10% per annum, will she invest the bond? Justify your answer. (2 Marks)
- b) TF Mutual Fund has total assets of RM5 million and amount unit outstanding of 2.5 million.
 Required to:
 - i. Compute the Net Asset Value per unit of TF Fund. (2 Marks)
 - ii. Compute how many units of TF Mutual Fund are purchased if an investor wants to invest at RM5,000. (2 Marks)
- c) Briefly explain any **TWO (2)** differences between common and preferred stock. (6 Marks)

(TOTAL 15 MARKS)

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QUESTION 3

Year	Expected Return (%)	
	Bonds	Common Stock
2012	20	28
2013	23	26
2014	25	22
2015	25	20
2016	27	18
2017	30	20

Sangeetha used some of her savings to invest 40% bonds and 60% common stocks in year 2012. The table above shows the performances on the returns of her investments for the past 6 years and she wants to measure the level of risk and return on her portfolio investments. Based on the data above, compute the:

- a) expected portfolio return for each respective years. (9 Marks)
- b) average expected portfolio return over the period (1.5 Marks)
- c) standard deviation of expected portfolio return. (4.5 Marks)

(TOTAL 15 MARKS)

QUESTION 4

a)	Total assets	RM240 million
	Total debt	RM115 million
	Preferred stock	RM25 million
	Common stockholder's equity	RM100 million
	Net profit after taxes	RM22.5 million
	Number of preferred stock outstanding	1 million shares
	Number of common stock outstanding	10 million shares
	Preferred stock dividends paid	RM2 per share
	Common stock dividends paid	RM0.75 per share
	Market price of preferred stock	RM30.75 per share
	Market price of common stock	RM25 per share

Calculate the following by using the information above for Lovie Dovie Bhd.

- i. The company's book value (2 marks)
- ii. Its book value per share (2 marks)
- iii. The EPS (2 marks)
- iv. The dividend payout ratio (2 marks)
- v. The dividend yield on the common stock (2 marks)
- b) List any **FIVE (5)** types of risks. (5 Marks)

(TOTAL 15 MARKS)

End of Page.

APPENDIX:

$$\text{Margin} = \frac{V - D}{V}$$

$$\text{Return on invested capital from a margin transaction} = \frac{\text{Total current income} - \text{Total interest paid on margin loan} + \text{Market value of securities at sales} - \text{Market value of securities at purchase}}{\text{Amount of equity at purchase}}$$

$$\text{Required return on investment} = \text{Real rate} + \text{Expecteds inflation} + \text{Risk premium for return premium investment}$$

$$rf = r^* + IP$$

$$\text{Holding period return} = \frac{\text{Income during period} + \text{capital gain (or loss) during period}}{\text{Beginning investment value}}$$

$$r = rf + [\beta (rm - rf)]$$

$$rp = \sum (wn \times rn)$$

$$bp = \sum (wn \times bn)$$

$$\text{Standard deviation} = \sqrt{\frac{\sum (rp - \bar{r})^2}{n - 1}}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Account receivable turnover} = \frac{\text{Annual sales}}{\text{Account receivable}}$$

$$\text{Inventory turnover} = \frac{\text{Annual sales}}{\text{Inventory}}$$

Total asset turnover	=	$\frac{\text{Annual sales}}{\text{Total assets}}$
Debt-equity ratio	=	$\frac{\text{Long-term debt}}{\text{Stockholders' equity}}$
Times interest earned	=	$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$
Net profit margin	=	$\frac{\text{Net profit after taxes}}{\text{Total revenues}}$
ROA	=	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$
ROE	=	$\frac{\text{Net profit after taxes}}{\text{Stockholders' equity}}$
EPS	=	$\frac{\text{Net profit after taxes} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$
Dividend yield	=	$\frac{\text{Annual dividends received per share}}{\text{Current market price of the stock}}$
Dividend payout ratio	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
P/E ratio	=	$\frac{\text{Net price of common stock}}{\text{EPS}}$
Dividends per share	=	$\frac{\text{Annual dividends paid to common stock}}{\text{Number of common shares outstanding}}$

$$\text{Book value per share} = \frac{\text{Common stockholders' equity}}{\text{Number of common shares outstanding}}$$

$$\text{Price-to-book-value} = \frac{\text{Market price of common stock}}{\text{Book value per share}}$$

$$\text{PEG Ratio} = \frac{\text{Stock's P/E ratio}}{\text{3-5 years growth rate in earnings}}$$

$$\text{Conversion Equivalent} = \frac{\text{Current market price of the convertible bond}}{\text{Conversion ratio}}$$

$$\text{Conversion Premium (in RM)} = \text{Current market price of the convertible bond} - \text{Conversion value}$$

$$\text{Conversion Premium (in %)} = \frac{\text{Conversion Premium (in RM)}}{\text{Conversion Value}}$$

$$\text{Yield to call} = \frac{C + \frac{FP - CP}{n}}{\frac{FP + CP}{2}}$$

$$\text{Yield to maturity} = \frac{C + \frac{F - P}{n}}{\frac{F + P}{2}}$$

$$\text{Current yield} = \frac{\text{Annual interest income}}{\text{Current market price of the bond}}$$

$$\text{Zero-growth model} = \frac{D}{r}$$

$$\text{Constant-growth model} = \frac{D_1}{r - g}$$